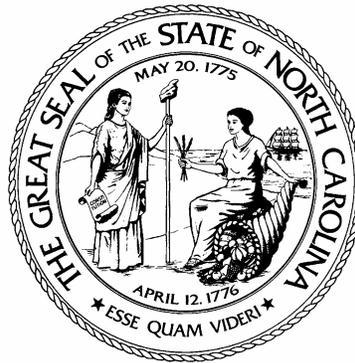


LEGISLATIVE RESEARCH COMMISSION

TRANSPORTATION FINANCE COMMITTEE



REPORT TO THE
2001 SESSION OF THE
2001 GENERAL ASSEMBLY
OF NORTH CAROLINA

A LIMITED NUMBER OF COPIES OF THIS REPORT IS AVAILABLE
FOR DISTRIBUTION THROUGH THE LEGISLATIVE LIBRARY.

ROOMS 2126, 2226
STATE LEGISLATIVE BUILDING
RALEIGH, NORTH CAROLINA 27611
TELEPHONE: (919) 733-7778

OR

ROOM 500
LEGISLATIVE OFFICE BUILDING
RALEIGH, NORTH CAROLINA 27603-5925
TELEPHONE: (919) 733-9390

TABLE OF CONTENTS

| | |
|---|----|
| LETTER OF TRANSMITTAL | i |
| LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP | ii |
| PREFACE | 1 |
| COMMITTEE PROCEEDINGS | 3 |
| RELEVANT PORTIONS OF CHAPTER 237 – TRANSPORTATION FINANCE | 5 |
| MEMBERSHIP OF THE LRC COMMITTEE ON TRANSPORTATION FINANCE..... | 7 |
| FINDINGS AND RECOMMENDATIONS..... | 9 |

1999 - 2000

LEGISLATIVE RESEARCH COMMISSION

MEMBERSHIP

President Pro Tempore of the Senate
Marc Basnight, Cochair

Speaker of the House of Representatives
James B. Black, Cochair

Senator Austin M. Allran
Senator Linda D. Garrou
Senator Jeanne H. Lucas
Senator R.L. "Bob" Martin
Senator Ed N. Warren

Rep. James W. Crawford, Jr.
Rep. Beverly M. Earle
Rep. Verla C. Insko
Rep. William L. Wainwright
Rep. Steve W. Wood

PREFACE

The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is cochaired by the Speaker of the House of Representatives and the President Pro Tempore of the Senate and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission, prompted by actions during the 1999 Session and 2000 Sessions, has undertaken studies of numerous subjects. These studies were grouped into broad categories and each member of the Commission was given responsibility for one category of study. The Cochairs of the Legislative Research Commission, under the authority of G.S. 120-30.10(b) and (c), appointed committees consisting of members of the General Assembly and the public to conduct the studies. Cochairs, one from each house of the General Assembly, were designated for each committee.

The study of transportation finance was originally authorized by Section 27.15(c) of Chapter 212 of the 1997 Session Laws (Regular Session, 1998) and by Section 27.2(d) of Chapter 237 of the 1999 Session Laws (Regular Session, 1999) as an independent study commission called the Blue Ribbon Transportation Finance Study Commission. This Commission was never appointed; therefore, in the fall of 1999, the Legislative Research Commission created the Transportation Finance Committee to study the issues that the Blue Ribbon Transportation Finance Study Commission was authorized to study.

The Legislative Research Commission authorized this study under authority of G.S. 120-30.17(1). The Committee was chaired by Senator Wib Gulley and Representative Nelson Cole. The full membership of the Committee is listed in Appendix B of this report. A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the 1999-2000 biennium.

COMMITTEE PROCEEDINGS

September 11, 2000

The first meeting of the Legislative Research Commission Transportation Finance Committee following the 2000 Session of the General Assembly took place September 11, 2000 at 10:00 a.m. in room 1027 of the Legislative Building.

The Committee heard presentations from DOT on the new draft TIP, on project delivery issues, and on DOT operational improvements. Committee staff reported the issue of cash flow management, and a related study being conducted by the Transportation Oversight Committee. The Committee also heard a staff presentation on transportation financing tools and potential topics for future meetings.

October 19, 2000

The second meeting of the Legislative Research Commission Transportation Finance Committee following the 2000 Session of the General Assembly took place October 19, 2000 at 10:00 a.m. in room 1027 of the Legislative Building.

The Committee first heard a presentations on the (1) Joint environmental streamlining efforts of DOT and the Department of Environment and Natural Resources, (2) the impact of potential new federal clean air standards on the State's transportation program, (3) various DOT management issues, (4) Federal innovative Financing opportunities, (5) transponders, and (6) the regional transportation needs of the Charlotte metro area.

November 16, 2000

The third meeting of the Legislative Research Commission Transportation Finance Committee following the 2000 Session of the General Assembly took place November 16, 2000 at 10:00 a.m. in Room 1027 of the Legislative Building.

The Committee heard a presentation from the Department of Transportation concerning use of department resources more effectively. This presentation included information on (1) DOT's Strategic Plan for the Department, presented by Janet D'Ignazio, (2) Decentralization, presented by David King, (3) Access management, presented by Janet D'Ignazio, (4) Trust Fund maintenance needs, presented by Calvin Leggett, (5) Dedicated funding for transit, presented by David King, and (6) Various innovative financing tools, presented by Calvin Leggett. The Committee also received a staff update on the cash management study of the Joint Legislative Transportation Oversight Committee, and draft findings and recommendation on transportation needs in the State. The Committee also reviewed information on potential funding sources that it had requested of committee staff, and began a discussion of its proposed recommendation to the 2001 General Assembly.

December 13, 2000
Public Hearing

On December 13, the Legislative Research Commission Transportation Finance Committee conducted a public hearing at 7:00 p.m. in the auditorium of the Legislative Building.

The Committee received comments from members of the public on the transportation needs of the State. A summary of the public hearing may be obtained from the committee clerk, or in the Committee notebook in the Legislative Library.

December 14, 2000

The fourth meeting of the Legislative Research Commission Transportation Finance Committee following the 2000 Session of the General Assembly took place December 14, 2000 at 10:00 a.m. in Room 1425 of the Legislative Building.

The Committee reviewed and discussed proposals to include in their final report to the 2001 General Assembly. The Committee directed staff to complete preparation of a final report based on their discussions.

APPENDIX A

CHAPTER 237

1999 Session Laws (1999 Session)

AN ACT TO APPROPRIATE FUNDS FOR CURRENT OPERATIONS AND CAPITAL IMPROVEMENTS OF STATE DEPARTMENTS, INSTITUTIONS, AND AGENCIES, AND FOR OTHER PURPOSES.

The General Assembly of North Carolina enacts:

...

Requested by: Representatives Crawford, Cole, Easterling, Hardaway, Redwine, Senators Gulley, Plyler, Perdue, Odom

BLUE RIBBON TRANSPORTATION FINANCE STUDY COMMISSION Section 27.2.(a) Commission Established. -- There is established a Blue Ribbon Transportation Finance Study Commission.

Section 27.2.(b) Membership. -- The Commission shall be composed of 15 members as follows:

- (1) Four members of the House of Representatives appointed by the Speaker of the House of Representatives.
- (2) Four members of the Senate appointed by the President Pro Tempore of the Senate.
- (3) Three members of the public appointed by the Governor, none of whom shall be State officials, and two of whom shall have expertise in transportation matters.
- (4) Two members of the public appointed by the Speaker of the House of Representatives, one of whom shall be a municipal-elected official, and one of whom shall have experience in business and transportation matters.
- (5) Two members of the public appointed by the President Pro Tempore of the Senate, one of whom shall be an elected county official, and one of whom shall have experience in business and transportation matters.

Any persons appointed pursuant to Section 27.15 of S.L. 1998-212 shall continue as members of this Study Commission.

Section 27.2.(c) Secretary of Transportation. -- The Commission shall invite the Secretary of Transportation to attend each meeting of the Commission and encourage his participation in the Commission's deliberations.

Section 27.2.(d) Duties of Commission. -- The Commission shall study the following matters related to transportation finance:

- (1) The Highway Trust Fund Act of 1989. -- The Commission shall review the current law and recommend any revisions that may be necessary, based on the 10-year history of the fund and the current transportation needs of the State.
- (2) Current revenue sources. -- The Commission shall review all current revenue sources that support State transportation programs and recommend changes, additions, or deletions based on projected needs for the next 25 years.
- (3) Transportation system maintenance. -- The Commission shall review current financing of transportation system maintenance and recommend changes to accommodate maintenance of new construction and increased traffic volume.

- (4) Public transportation. -- The Commission shall evaluate funding public transportation with dedicated sources of funds. The Commission's recommendation shall include specific sources and amounts of any dedicated funds, if recommended.
- (5) Highway Fund transfers. -- Transfers from the Highway Fund to other State agencies, including whether or not those funds would more appropriately come from the General Fund.
- (6) Transportation spending. -- Proposals for (i) separate funding allocations for roads that impact large-scale economic development projects, including projects that would create new industries, (ii) separate funding allocations for major highways that impact no fewer than two funding regions, and (iii) methods to accommodate these spending proposals in the equity formula.
- (7) Other transportation financing issues. -- The Commission may study any other transportation finance-related issue approved by the cochairs or recommended by the Secretary of Transportation and approved by the cochairs.

Section 27.2.(e) Vacancies. -- Any vacancy on the Commission shall be filled by the appointing authority.

Section 27.2.(f) Cochairs. -- Cochairs of the Commission shall be designated by the Speaker of the House of Representatives and the President Pro Tempore of the Senate from among their respective appointees. The Commission shall meet upon the call of the chairs. A quorum of the Commission shall be eight members.

Section 27.2.(g) Expenses of Members. -- Members of the Commission shall receive per diem, subsistence, and travel allowances in accordance with G.S. 120-3.1, 138-5, or 138-6, as appropriate.

Section 27.2.(h) Staff. -- Adequate staff shall be provided to the Commission by the Legislative Services Office.

Section 27.2.(i) Consultants. -- The Commission may hire consultants to assist with the study. Before expending any funds for a consultant, the Commission shall report to the Joint Legislative Commission on Governmental Operations on the consultant selected, the work products to be provided by the consultant, and the cost of the contract, including an itemization of the cost components.

Section 27.2.(j) Meetings During Legislative Session. -- The Commission may meet during a regular or extra session of the General Assembly, subject to approval of the Speaker of the House of Representatives and the President Pro Tempore of the Senate.

Section 27.2.(k) Meeting Location. -- The Commission shall meet at various locations around the State in order to promote greater public participation in its deliberations. The Legislative Services Commission shall grant adequate meeting space to the Commission in the State Legislative Building or the Legislative Office Building.

Section 27.2.(l) Report. -- The Commission shall submit an interim report to the Joint Legislative Transportation Oversight Committee on or before June 1, 2000. The Commission shall submit a final report to the Joint Legislative Transportation Oversight Committee by March 1, 2001. Upon the filing of its final report, the Commission shall terminate.

....

APPENDIX B

**MEMBERSHIP OF THE LRC COMMITTEE ON
TRANSPORTATION FINANCE**

Pro Tem's Appointments

Sen. Wib Gulley, Cochair
PO Box 3573
Durham, NC 27702
(919) 683-1584

Mr. Jim Harrington
1042 Washington Street
Raleigh, NC 27606

Mr. William Hawkins
PO Box 92
Pisgah Forest, NC 28768

Sen. David Hoyle
PO Box 2494
Gastonia, NC 28053
(704) 867-0822

Mr. Samuel Hunt
1218 W. Davis Street
Burlington, NC 27215

Sen. John Kerr, III
PO Box 1616
Goldsboro, NC 27533
(919) 734-1841

Mr. George Little, Jr.
Kilpatrick Stockton, LLP
1001 W. Fourth Street
Winston-Salem, NC 27101

Sen. Beverly Perdue
PO Box 991
New Bern, NC 28563
(252) 633-2667

Speaker's Appointments

Rep. Nelson Cole, Cochair
PO Box 2309
Reidsville, NC 27320
(336) 342-4223

Mr. Robert Barnhill, Jr
2311 North Main St.
Tarboro, NC 27886

Dr. Delilah Blanks
Bladen County Commissioner
1369 Bowen Blanks Road
Riegelwood, NC 28456

Mr. Thomas W. Bradshaw, Jr
7416 Grist Mill Rd.
Raleigh, NC 27615-5409

The Honorable Cherri Cheek
Mayor, City of Sunset Beach
700 Sunset Blvd., North
Sunset Beach, NC 28468

Rep. James W. Crawford, Jr.
509 College Street
Oxford, NC 27565
(252) 693-6119

Rep. Beverly M. Earle
312 South Clarkson Street
Charlotte, NC 28202
(704) 333-7180

Rep. Paul Luebke
1507 Oakland Ave.
Durham, NC 27705
(336) 334-5295

Mr. Charles M. Shelton
4201 Congress Street, Suite 470
Charlotte, NC 28209

Mr. Robert Mattocks
Jenkins Company
PO Box 156
Pollocksville, NC 28573

Staff

Giles Perry
Research Division
(919) 733-2578

Clerk

Carol Resar
(919) 715-3036

Evan Rodewald
Bob Weiss
Fiscal Research
(919) 733-4910

**TRANSPORTATION FINANCE COMMITTEE
1999-2001**

FINDINGS

Meeting North Carolina's Transportation Needs

North Carolina is spending \$3.3 billion in FY2000-2001 on its transportation programs, including \$1.5 on the Transportation Improvement Program (TIP) and \$500 million on road maintenance. For the eight years through FY2008, planned TIP spending is \$11.2 billion and maintenance spending will be \$4 billion if funding continues at current levels.

The Committee finds, however, that this level of spending is insufficient. After hearing testimony from citizens, industry, and government officials, the Committee finds that substantial and pressing needs exist, beyond current and projected funding levels, in all our modes of transportation, including highway construction, maintenance, transit, and rail.

The Committee finds that additional transportation investment of over \$1 billion per year will be necessary to provide the infrastructure that will allow the State's growth to continue at a rate that we have come to take for granted but that is not guaranteed. While the Committee finds these expenditures necessary, it recognizes that DOT could not absorb these additional resources immediately and that raising this level of additional revenue would be quite difficult. Accordingly, this Committee makes the following recommendations as a first phase in meeting the needs detailed below.

The components of these needed and necessary investments are described below and summarized on page 11A.

1. Highways - Maintenance

DOT has identified and reported to the General Assembly a large maintenance shortfall, growing from a current annual level of about \$300 million to over \$500 million. The Trust Fund projects have increased the need for maintenance, yet resources have lagged far behind. The system is deteriorating, while current projections for the Highway Fund do not show increased availability for maintenance spending. The Committee recommends that the General Assembly provide sufficient resources to eliminate the shortfall in maintenance funding.

2. Additional TIP Construction (Post Year TIP)

Approximately \$15 billion of projects have been screened for the TIP but are not included in the current draft TIP for 2002-2008. Many of these projects will eventually be included in the TIP and will be completed in future years, but funding and completion remains uncertain at best for many of these projects.

3. Highways – Interstate System

The interstate highways are the economic backbone of the State's prosperity, but we found that our investment in these roads is lagging far behind our needs. Widening of all of I-95 from Virginia to South Carolina, and portions of I-77, I-85, I-40, and I-26 is necessary over the next few years but is not currently planned. DOT estimates the total cost for these projects at \$4.1 billion.

4. Highways – Bridges

Analysis by DOT using the Bridge Management System program indicates that about 3,400 bridge structures out of 17,000 in North Carolina should be replaced. This replacement need is above and beyond current plans for replacement.

5. Highways – Trust Fund Projects

DOT's estimate of the cost to complete the Intrastate System is \$6.3 billion and its estimate of the cost to complete the loops is \$2.3 billion, for a total of \$8.6 billion. Many of the individual project cost estimates, however, are out-of-date or based on inadequate information. The actual cost to complete the Trust Fund projects is not known.

6. Highways – Other

DOT has identified approximately \$15 billion in projects in thoroughfare plans for municipalities around the state. These are projects that will be needed over the next twenty years but are generally not included in the TIP or other construction plans. However, because many of the larger municipalities are not covered in the survey, DOT estimates that the actual cost of completing projects identified in thoroughfare plans could be as high as \$30 billion. The Committee is sensitive to the need for these projects but declines to make a specific funding recommendation, given the long-term nature of the need and lack of documentation.

7. Highways – Intelligent Transportation Systems (ITS)

DOT has identified ITS as an important tool for maximizing the use of existing road and street capacity. ITS includes, among other techniques, incident management and rerouting.

8. Public Transportation, including Regional Rail

North Carolina spends less than three percent of its transportation budget on public transportation and rail. In addition, of the \$808 million available in North Carolina for flexible transfer from federal highway programs to transit projects, less than \$10 million or 1.2% has been used since 1992. The national average is 8.95%. North Carolina ranked 38th in the nation on that measure. In 1998, Governor Hunt's *Transit 2001* Committee reported that the state should be spending a minimum of an additional \$100 million annually. State financial needs for regional rail, a growing component of the State's public transportation effort, are driven by the plans of the Triangle Transit Authority (TTA), Charlotte-Mecklenburg, and the Triad. While TTA is well along in its financial planning, Charlotte and the Triad are earlier in the process. Generally, the federal government is expected to pay fifty percent of the cost of these new starts, while local and State government each pay twenty-five percent. While the actual timing of

requirements depends on the speed of the design process and the availability of federal funding, it is clear that major funding will be needed from the State in the period after FY2008. The Committee recommends that the State commit to providing the 25 percent share of regional rail costs as they are needed. The current projections of those needs are shown in the table.

9. Passenger Rail

State financial needs for passenger rail are driven by the need to match federal funds, which are uncertain. DOT has identified \$50 million as an appropriate additional amount to supplement the State's current spending.

10. Other Modes – Aviation, Ferry, Bicycle

In a study for the Rural Prosperity Task Force, DOT identified \$55 million per year as the additional funding needed in these areas.

Transportation Finance Committee
Meeting North Carolina's Transportation Needs

(million \$)

| | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> | <u>2004-05</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Highway | | | | | | | |
| 1. Maintenance <i>DOT's estimate of shortfall based on current spending levels.</i> | \$300 | \$340 | \$370 | \$410 | \$450 | \$490 | \$530 |
| 2. Additional TIP Construction <i>\$15 billion of projects that have been screened but are not in the draft TIP</i> | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 |
| 3. Interstate Widening - \$4.1 billion <i>I-95 and parts of I-77, I-85, I-40, and I-26 over twenty years.</i> | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 |
| 4. Bridge Replacement - \$2.8 billion <i>Assumes replacement of 3400 structures over 20 years.</i> | \$140 | \$140 | \$140 | \$140 | \$140 | \$140 | \$140 |
| 5. Trust Fund Projects ??? <i>Cost estimates for many Trust Fund projects are out-of-date.</i> | | | | | | | |
| 6. Other - \$30 billion <i>Estimated by DOT from municipal thoroughfare plans.</i> | | | | | | | |
| 7. Intelligent Transportation Systems <i>Incident management, etc.</i> | \$45 | \$45 | \$45 | \$45 | \$45 | \$45 | \$45 |
| Transit, Rail, and Other | | | | | | | |
| 8. Public Transportation (includes Regional Rail) <i>Estimate based on Transit 2001</i> <u>Regional Rail (Cash - State Share)</u> | \$100 | \$100 | \$100 | \$100 | \$100 | \$100 | \$100 |
| TTA | \$15 | \$13 | \$19 | \$71 | \$50 | \$25 | \$37 |
| Charlotte-Mecklenburg | \$8 | \$22 | \$33 | \$20 | \$13 | ? | ? |
| Triad ??? <i>Current estimates from DOT and the transit agencies.</i> <i>Charlotte costs could be five times as high as TTA.</i> | | | | | | | |
| 10. Passenger Rail <i>Current estimates from DOT.</i> | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 |
| 11. Other Modes - Aviation, Ferry, Bicycle <i>DOT estimate in report to Rural Prosperity Task Force</i> | \$55 | \$55 | \$55 | \$55 | \$55 | \$55 | \$55 |
| Total | \$1,090 | \$1,130 | \$1,160 | \$1,200 | \$1,240 | \$1,280 | \$1,320 |

**TRANSPORTATION FINANCE COMMITTEE
1999-2001**

OPERATIONAL AND ADMINISTRATIVE PROPOSALS

The following measures are recommended to strengthen and enhance operations of the Department of Transportation and to ensure the most efficient use of existing resources:

1. DOT Study of Access Management

The Committee recommends that the Department of Transportation study the issue of management of access to the State's highways. As a part of its study, the Department shall review current law, rules and policy governing driveway permits and other forms of access to the State's roads. The Department shall consult with interested parties, including representatives of local governments and the business community, in the course of its study. The Department shall report its findings and any recommended changes to the State's current access management laws, rules, and policies to the Joint Legislative Transportation Oversight Committee by November 1, 2001.

2. Project Development TIP

The Committee recommends the establishment of a separate Project Development TIP in addition to the TIP required under G.S. 143B-350. The purpose of the Project Development TIP is to insure that the State has enough projects under development to fully utilize, in the most expeditious manner, all resources available to it through State and federal funds. The Project Development TIP shall include projects identified by the Department as future needs not included in the TIP. The Department may initiate appropriate preliminary design, engineering, and environmental and other permitting processes on projects in the Project Development TIP. Statutes affected: G.S.143B-350

3. Division Construction Program

The Committee recommends the establishment of a new Division Construction Program as part of DOT's ongoing efforts to decentralize operations. This program would authorize each division engineer to design and construct needed small local transportation projects of less than \$500,000. The program would be funded by an appropriation from the Highway Fund of \$2 million per Division, for a total of \$28 million per year. Statutes affected: G.S. 136-11.1, new G.S. 136-11.2

4. Add Interstate Projects to the Highway Trust Fund

The Committee recommends that all Interstate highways that are not already listed as projects to be funded from the Highway Trust Fund be added as Trust Fund eligible projects. These roads would not be subject to the distribution formula for each funding region. Interstates added to the Highway Trust fund would be funded by the revenue made available from the

elimination of the transfer of funds from the Highway Trust Fund to the General Fund.
Statutes affected: G.S. 136-17.2A, Article 14 of Chapter 136, G.S. 105-187.9

5. GARVEE Study Provision

The Committee recommends that the Department of Transportation study the issue of Grant Anticipation Revenue Vehicles, commonly known as “GARVEE” bonds. The Department, in consultation with the Office of the State Treasurer, shall identify specific projects that would be appropriate for GARVEE bond financing, and develop a specific plan for implementing GARVEE bond financing and construction of those projects. The Department shall report its findings and recommendations to the Joint Legislative Transportation Oversight Committee by November 1, 2001.

6. Environmental Streamlining Resolution

The Committee, by resolution, expresses its support for the efforts of DOT and DENR to streamline the environmental permitting process for highway construction projects. As a part of this process, the Department has been chosen as a pilot laboratory by the Federal Highway Administration to demonstrate effective and efficient integration of transportation and environmental decision-making. The Committee commends these efforts, and urges the Department leadership to continue all its efforts to make the environmental permitting process more rapid and efficient.

7. Global TransPark –Distribution of Highway Funds

The Committee recommends that the Board of Transportation study the issue of distribution of construction funds in the Global TransPark region, with the goal of insuring a fair and equitable contribution of funds from all communities and Transportation Divisions in the region. The Board shall report its findings and recommendations to the Joint Legislative Transportation Oversight Committee by November 1, 2001.

8. DOT Evaluation of Toll Roads

The Committee supports DOT’s current efforts to evaluate toll roads, as required by S.L. 2000-415.

9. DOT to Begin Design-Build Projects

The Committee recommends that DOT initiate two large and two small (under \$10 million) design-build construction projects and report to the Joint Transportation Oversight Committee by October 1, 2001 on its experience and preliminary analysis of the costs and benefits of this method of construction.

Statutes affected: G.S. 136-28.1(j)

10. Local Funding of Transportation Needs

The Committee recommends that the General Assembly enable cities, counties, or regions, as appropriate, to raise revenue for transportation related purposes from one or more sources, so that local governments can choose to play a more substantial role in funding the State’s transportation needs.

**TRANSPORTATION FINANCE COMMITTEE
1999-2001**

***RECOMMENDED FINANCIAL PACKAGE TO MEET
TRANSPORTATION NEEDS***

The following measures are recommended to provide the Department of Transportation with more adequate revenues to meet our critical strategic priorities of preserving our transportation infrastructure and improving mobility:

A. Maintaining Infrastructure

One of the State's highest priorities is maintaining the existing infrastructure and protecting the State's investment in roads and highways. To this end, the Transportation Finance Study Committee recommends that the State correct the \$300 million annual maintenance gap by increasing Highway Fund maintenance expenditures by \$240 million annually and Highway Trust Fund maintenance expenditures by \$60 million annually, as follows:

1. Increase annual maintenance funding in the Highway Fund by \$240 million.

This money would be used for maintenance and contract resurfacing. Before the Department could access these funds, it would report to the Joint Legislative Transportation Oversight Committee on its plan for using the funds to address State maintenance problems.

Funding Sources

Increase Vehicle Registration fees to adjust for inflation. *\$140 million*

Registration fees were last increased in 1983, but the general price level has approximately doubled since that time and North Carolina's current vehicle registration fee structure puts it generally in the bottom 20% of the states. The Committee recommends that, in recognition of past inflation, the annual registration fee for a passenger vehicle should increase from \$20 to \$40. In the future, these fees should be adjusted automatically every four years to account for future inflation.

Increase the motor fuels tax by 2 cents per gallon. *\$100 million*

The motor fuels tax is the major support of the Highway Fund but its recent and forecasted growth is slower than the growth in maintenance and other needs. The motor fuels tax is 17.5 cents, plus 3.5 cents or 7% of the wholesale price, whichever is greater. Currently, the tax is 23.1 cents per gallon. It is proposed here that the tax be changed to 19.5 cents, plus 3.5 cents per gallon or 7% of the wholesale price, whichever is greater. North Carolina's fuel tax is generally higher than that of other southern states, reflecting the fact that the state has about 79,000 miles of state-maintained roads, essentially tied with Texas for the largest state-maintained road system in the nation. Virginia maintains about 57,000 miles of road and

South Carolina maintains about 42,000 miles. Constructing and maintaining the transportation infrastructure has primarily been a state, not a local, responsibility in North Carolina, whereas in many other states local governments make a significant financial contribution to road building and maintenance.

Cap the transfers from the Highway Fund to the General Fund at current spending levels.

Highway Fund support for the General Fund and General Fund agencies such as the Highway Patrol, Department of Public Instruction, the Department of Revenue, Health and Human Services, and the Leaking Underground Storage Tank Fund would be frozen at current levels. Although freezing Highway Fund support for these programs would have no immediate impact on transportation programs, it would save over \$20 million per year after five years. These savings would help DOT better meet its maintenance obligations.

2. Use \$60 million of Highway Trust Fund dollars to maintain Highway Trust Fund projects.

Although projects constructed by the Highway Trust Fund legislation require maintenance resources, maintenance of those highways is currently the responsibility of the Highway Fund. This means, in effect, that there is little to no real funding to maintain Trust Fund projects. This action would provide an additional \$60 million from the Highway Trust Fund for the maintenance effort.

Funding Sources

This change would be funded by:

- Reducing by \$60 million the transfer from the Highway Trust Fund to the Highway Fund, and
- Funding federal aid match from the Highway Fund.

Currently, money to match federal aid is transferred from the Highway Trust Fund to the Highway Fund. Reducing these transfers by \$60 million will enable the Highway Trust Fund to meet its maintenance obligations. To allow the Highway Fund to pick up the federal match requirement, the following fees and penalties would be increased to adjust for past inflation. In the future, they should be adjusted automatically every four years to account for future inflation.

| | |
|---|-----------------------------------|
| Truck License Fees and International Registration Program Fees | <i>\$30 million</i> |
| Driver's License Fees | <i>\$10 million</i> |
| <u>Other fees and penalties</u> | <u><i>\$20 million</i></u> |
| Total | <i>\$60 million</i> |

Truck license fees and International Registration Program fees currently range from \$.46 per hundred pounds for the smallest trucks (up to 4,000 pounds) to \$1.20 per hundred pounds for

the largest trucks. These fees were last changed in 1993 and would be increased to reflect inflation since that time.

The yearly cost of a Driver’s License would increase from \$2.50 to \$3.00, or to \$15.00 every five years. The cost of driver records would increase from the current \$5 and \$7 to \$7 and \$10. (The total revenues from increasing driver’s license fees are \$22 million. The remaining \$12 million is shown in Recommendation 3 below.)

Other fees and penalties include miscellaneous registration fees and fees for financial security restoration, lien recording, dealers and manufacturers, motor carriers, and penalties for oversize/overweight trucks.

B. Congestion Relief and Safety Improvements on State Highways

Another high priority for the State is addressing the congestion on State highways where traffic exceeds our highway capacity. The State needs more highway infrastructure to relieve this congestion and to address the safety concerns that traffic poses. To address congestion relief and needed safety improvements, the Transportation Finance Committee makes the following recommendations:

- 3. **Establish a \$150 million State Construction Program in the Highway Fund.** This fund would supplement construction funding provided by the Highway Trust Fund by restoring a state construction program in the Highway Fund. The Department could use this funding for a variety of construction programs, including matching federal aid, funding a Division level construction program, and other construction needs.

Funding Sources

| | |
|---|------------------------------------|
| One half of revenues from increasing the Highway Use Tax | <i>\$100 million</i> |
| Remaining funds from increasing Driver’s License fees | <i>\$ 12 million</i> |
| Eliminate transfer from Highway Fund to Highway Trust Fund | <u><i>\$ 38 million</i></u> |
| Total | <i>\$150 million</i> |

The Highway Use Tax would be raised from the current 3% to 4%, for a total revenue increase of \$200 million. Half of that amount would be used for the State Construction Program in the Highway Fund and the other half would be used for public transportation (see Recommendation 6 below). North Carolina levies the Highway Use Tax on the retail price of all motor vehicles sold and registered in the state. There is a maximum tax of \$1500 (\$1000 for commercial vehicles) and the retail price of the vehicle is the net price after trade. Tax rates among southern states range from 2% in Alabama to 6.25% in Texas. North Carolina’s current tax is near the low end for this group of states. Of the nation’s twelve largest states, North Carolina has the lowest tax.

The remaining \$12 million available from increasing Driver's License fees would also be used for this construction program.

Finally, eliminating the \$38 million transfer from the Highway Fund to the Highway Trust Fund would provide additional funding. This transfer was originally created to help fund the Highway Trust Fund. It was based on the idea that as the Highway Fund paid off its bond debt, the debt service payments could be directed to the Highway Trust Fund. This transfer has been eliminated for the past several years in the Budget Bill. The Committee recommends eliminating it permanently to allow additional construction to be funded from the Highway Fund. The loss of this \$38 million to the Highway Trust Fund would be made up by beginning the phase out of the current \$170 million transfer from the Highway Trust Fund to the General Fund, as shown in Recommendation 4 below.

4. Phase out the \$170 million transfer from the Highway Trust Fund to the General Fund over five years.

Phasing out this transfer over five years, beginning with a reduction of \$38 million in the first year, would yield \$170 million per year after five years for additional Highway Trust Fund construction. The first \$38 million of this phase-out would replace the \$38 million in Recommendation 3 above. The funds remaining from this phase-out (\$132 million) would fund new Interstate projects as described below in Recommendation 5.

5. Fund Additional Interstate Projects with the Highway Trust Fund

As discussed in Recommendation 4, the phase-out of Trust Fund transfers to the General Fund would eventually yield an additional \$132 million for new Interstate projects. Adding Interstate projects to the Highway Trust Fund was also discussed as Recommendation 4 in the Operational and Administrative Proposals section.

C. Enhanced Mobility, Safety and Congestion Relief Through Strengthened Public Transit and Rail Options

6. Fund \$100 million Public Transportation Trust Fund.

North Carolina spends less than three percent of its transportation budget on public transportation and rail. Additional funds are needed for the state share of regional rail in the Triangle, Charlotte-Mecklenburg, and the Triad; to match federal funds for high speed rail; and to provide increased support for public transportation in urban and rural areas to ensure adequate mobility for the state's citizens. Establishment of the Public Transportation Trust Fund would fund public transportation at a level commensurate with the amounts recommended in the *Transit 2001* report and would ensure the dependability and consistency of revenues that is as important for public transportation as it is for highway construction.

Revenue Sources

One half of revenues from increase in Highway Use Tax

\$100 million

**Transportation Finance Study Commission - Recommended Package
(\$ Millions)**

| <u>Maintaining Infrastructure</u> | <u>FY 2001-02</u> | <u>Fund Affected</u> |
|---|-------------------|------------------------------|
| <p>1 Increase Annual Maintenance Funding</p> <p><i>Funding Sources</i></p> <p>Increase vehicle registration fees 140</p> <p>Increase fuel tax by 2 cents per gallon 100</p> <p style="text-align: right;">240</p> | 240 | Highway Fund (HF) |
| <p>2 Allow Highway Trust Fund to Maintain Highway Trust Fund Projects</p> <p><i>Funding Source</i></p> <p>Reduce transfers from HTF to HF; create program to match federal aid; increase fees for truck licenses, IRP, driver licenses, and other fees. 60</p> | 60 | Highway Trust Fund (HTF) |
| <p style="text-align: center;"><u>Congestion Relief and Safety Improvements on Highways</u></p> <p>3 Establish \$150 Million Construction Program in Highway Fund</p> <p><i>Funding Sources</i></p> <p>1/2% increase in use tax \$100</p> <p>Driver Licenses \$12</p> <p>Eliminate \$38 million transfer from HF to HTF. In turn, replace the \$38 million in the HTF by phasing out the \$170 million transfer from the HTF to the GF. <u>\$38</u></p> <p style="text-align: right;">\$150</p> | 150 | Highway Fund |
| <p>5 Fund Additional Interstate Projects with the Highway Trust Fund</p> <p><i>Funding Sources</i></p> <p>Funding would be phased in as \$170 million in Trust Fund transfers to the General Fund were phased out. The first \$38 million of this phase-out would go to the Highway Fund for item 3 above. The remaining \$132 million would be available for these additional Interstate projects.</p> | - | Highway Trust Fund |
| <p style="text-align: center;"><u>Enhanced Mobility Through Public Transportation and Rail</u></p> <p>6 Fund \$100 Million Public Transportation Trust Fund</p> <p><i>Funding Source</i></p> <p>1/2% increase in use tax \$100</p> | 100 | Public Transport. Trust Fund |
| <p>Total first year package</p> | 550 | |

ADDENDUM

I. DOT Efficiency Study

The Committee recommends that the Department of Transportation, in consultation with the Joint Legislative Transportation Oversight Committee, conduct an efficiency study of the Department's construction process. As a part of its study, the Department shall:

1. Develop recommendations, in consultation with each Division Engineer, of methods to complete projects in a more efficient and cost effective manner.
2. Identify methods to streamline the construction process, so that it is more efficient and effective.
3. Reevaluate the inflation factors used in the development of the Transportation Improvement Program, and develop a more precise method to utilize these inflation factors in calculating project cost estimates.
4. Examine the process of right-of-way acquisition, and develop recommendations to improve the cost effectiveness and efficiency of the process.
5. Evaluate the amount the Department is spending on administration, recommend areas where costs could be reduced, and determine an appropriate percentage level at which administrative costs could be limited.
6. Determine additional specific projects that the Department could complete using the design build process, and projected cost savings from using the design build process.
7. Recommend areas that the Department could significantly increase its use of outsourcing to expedite permitting, planning, engineering and inspections, and identify cost saving from use of additional outsourcing.
8. Investigate and recommend a framework for commissioning a 20 year long range study by a qualified consultant of the State's transportation needs.

The Department shall report its findings and recommendations to the Joint Legislative Transportation Oversight Committee by November 1, 2001.

II. Require Annual Active TIP Project Progress Report

In addition, the Committee recommends that the Department be directed to report to the General Assembly, on an annual basis, the progress of all active TIP projects. This report should include any delays or other problems identified in the prior year on each active project, including environmental and other permitting delays, and the estimated cost of those delays.

MINORITY REPORT

Submitted by Representative Luebke:

1. There has been insufficient communication and coordination between the Transportation Finance Committee and the Smart Growth Commission. In fact, one could argue that the goals of the two groups are in some ways contradictory.
2. According to the Brookings Institution report (page 19) commissioned by the Z. Smith Reynolds Foundation for the Smart Growth Commission, further construction of outer loops is likely to worsen suburban sprawl. Consequently, increased funding for metropolitan transit needs, statewide road maintenance, and statewide road improvement would be more consistent with the findings of the Brookings Report than continued funding of loop construction.
3. The Raleigh, Charlotte, and Greensboro loops should be phased out immediately, and the money saved should be reallocated as suggested in number 2 above. If this phaseout is not feasible, the number of interchanges on each of these loops should be reduced and the money saved reallocated.